HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (THIRD REPORT)

Commonwealth Bank of Australia

CBA10QON: **[70]**

Mr EVANS: I think, from memory, CBA was the first to move on that. So thank you for that. Just to confirm: CBA no longer has any ability to default small business customers unless they actually miss a repayment?

Mr Narev: Yes, this has been—we've done for existing and new customers, and put the updates in our terms and conditions.

Mr EVANS: And that includes, say, a small business customer who has an asset revaluation? They won't be defaulted so long as they continue to meet their minimum repayments?

Mr Narev: Correct. I will double-check to make sure my understanding of that is correct and come back to you on notice. But I'm almost certain that's the case.

Answer: In April 2017, Commonwealth Bank announced that it would make a range of changes to simplify small business lending contracts and provide greater certainty to customers. For small business customers where our total exposure is less than $3 million, financial indicator covenants are no longer included in loan contracts and can no longer be a possible cause of default, for existing and new qualifying loan contracts (with exceptions for specialised finance transactions such as margin lending, foreign currency loans, SMSF financing and property development).The financial covenant includes the loan to valuation ratio and the interest cover ratio.

Other clauses that have been removed include those known as ‘material adverse change’ that entitle the bank to call a default for an unspecific negative change in the circumstances of the business.

In addition, in the event of a customer defaulting, we will apply a materiality test and give customers a period of up to 30 days to remedy their situation, for most default conditions.

Specific events of non-monetary default that continue to entitle enforcement will be limited to following circumstances within the customer's control, namely:

- Misrepresentation, illegality or use of the loan for non-approved purpose;
- Change in beneficial control of company except as permitted;
- Insolvency, bankruptcy, administration, or other creditor enforcement;
- Loss of licence or permit to conduct business;
- Dealing with loan security property without consent e.g. through disposal of the security;
- Failure to provide proper accounts or to maintain insurance.